

Sino-Soviet Bloc Economic Offensive  
27 April 1959

It is a pleasure to have the opportunity to speak to you briefly on the subject of the Sino-Soviet Bloc economic offensive. I am particularly happy to see some old friends in this distinguished group, because this Brookings Institution series has become famous for "no holds barred sessions."

To save time, I intend to confine these opening remarks <sup>primarily</sup> to the Soviet Union itself. I propose to hit some highlights in three aspects of our subject:

First, Soviet trade with the West,

Secondly, The penetration program in underdeveloped areas, and

Finally, Some estimates of the future, which inevitably must lead to estimating Soviet economic growth.

Volume of trade generated annually by Soviet economy increasing rapidly

1. Exports at rate of \$4.5 billion a year.
2. In constant prices, exports in 1957 six times larger than in 1938 (volume of trade of Industrial West, by comparison, less than doubled during same period).
3. As a trading nation, USSR now ranks sixth in world compared with 16th in 1938.

Magnitude of Soviet trade must be qualified

1. Three-fourths of USSR trade is with Sino-Soviet Bloc.
2. Exports during past 4 years have been consistently about

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Trade with Free World

*annual*

1. Relatively small current volume of Soviet imports from West (about \$1.2 billion) understates contribution to domestic economy because of gains derived from importing machinery and equipment for use as prototypes and for supplementing domestic production in certain key areas.

2. Present knowledge about Soviet priorities during Seven-Year Plan suggest Soviet interest in (1) chemical equipment, (2) electronic and automation equipment, and (3) equipment for the ferrous metal industry.

3. Although denial of certain pieces of western equipment, particularly in the field of petro-chemicals, would retard growth of key industry, we may take Khrushchev at his word when he boasted that the fulfillment and overfulfillment of the Seven-Year Plan could be accomplished through "our own efforts, our own resources."

4. Motivation behind current import drive is implicit in Khrushchev's frank admission that through imports from industrial West, "the Soviet Union could be given the opportunity of quicker fulfillment of its program ..... without wasting time....."

5. Because of import requirements, Soviet leaders will exert every effort to expand exports.

a. Bulk of Soviet exports to West will be traditional raw materials, fuels and semi-manufactures.

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b. Petroleum, non-ferrous and ferrous metals news-print, wood pulp, asbestos and timber should become increasingly prominent.

6. Difficulty in expanding exports may lead to:

a. Sales of Soviet gold - with increasing costs of mining gold, it is anticipated that USSR will intensify efforts to substitute merchandise exports as earners of foreign exchange rather than rely on heavy exports of gold.

b. Price cutting to gain entry into major western markets; aluminum and tin sales in 1957-58 are cases in point.

c. A concerted effort to secure long-term credits from western nations to finance growing imports.

In Summary

The motives of current Soviet foreign economic policy In the Industrial West, may be simply stated, that is to utilize economic contacts with the Free World to keep abreast of western technology and to hasten an economic growth the ~~ultimate~~ aim

of which is to "overtake and surpass" the capitalist West. *Do not expect to subvert Western Europe.*

Now to move to the penetration program in underdeveloped countries.

The Communist bloc trade and aid programs moved into high gear last year. The equivalent of over one billion dollars in new credits were extended.

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In the four year period ending in 1958, total Bloc extentions of credits and grants amounted to about \$2.5 billions. This has been, of course, far smaller than our own economic and military aid program.

However, the Soviet program is centered on a few key countries. In Afghanistan, Ceylon, Egypt, Syria, Iraq and Indonesia, Bloc economic aid exceeds our own.

In Burma, Cambodia, and India, while less than ours, Bloc Aid is quite substantial.

Bloc trade with underdeveloped areas shows a similar concentration. The Bloc now is a major trading partner of Afghanistan, Egypt, Syria, Iceland, Turkey and Yugoslavia.

Further, the Bloc today is trading with many countries where it never did much, if any, business before. In South America, this includes Argentina, Brazil and Uruguay.

Over 4,000 Bloc technicians have been sent out to assist the development of nations of the Free World. About 70 percent of these are engaged in economic activities. The rest are re-organizing local military establishments and teaching bloc military doctrine to indigenous personnel. *Technicians minding own business. However, Indo-Soviet Cultural Societies.*

The Bloc also has a well-developed program for training students from underdeveloped countries. About 3,200 students, technicians and military specialists have now received such training behind the Iron Curtain.

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The Soviet policy of economic penetration fits like a glove into their world-wide campaign of subversion.

The Communist world, in dealing with the former colonial areas and newly emerging nations of the world, has appealing slogans to export and vulnerable economic conditions to exploit.

The cost of all the Bloc economic and military aid has been small indeed. By combining the Soviet assistance programs to Bloc countries and <sup>to</sup> underdeveloped countries and taking into account repayments on Soviet loans, it is possible to estimate the net burden (drawings on credits minus repayments) under given conditions of the entire Soviet foreign assistance program.

1. In 1958 the net burden from all Soviet foreign assistance was about \$600 million, less than four-tenths of one percent of Soviet GNP.

2. Well over half of what the Bloc imports from underdeveloped countries consists of foodstuffs and other 30 percent is crude materials. There is no overall surplus of food or fibers in the Bloc. The European Satellite countries, for example, are deficient in both. Consequently, the Bloc can use to good advantage much of exportable surpluses of the underdeveloped countries, which we would find economically difficult and politically impossible to do. Burden then is slight.

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What of the future

1. For the seven years ending in 1965 the economic expansion of the USSR, measured by GNP, is planned to average between six and seven percent annually. What will the U.S. rate be? Possibly about three and one-half percent.

2. By 1965 the USSR, without <sup>straining</sup> ~~any strain~~ on overall internal availabilities appreciably greater than at the present, will have the capability of maintaining an assistance program in the underdeveloped areas of the Free World that approaches in magnitude that of the U.S. today.

3. It seems certain that Communist competition is going to get rougher, not easier, in the future. As Soviet capabilities grow, their activities in the free world will increase. For them, it is a cheap investment in disorder.

4. I read this into Khrushchev's statement of intention, made nine months ago.